

# GENERAL AGREEMENT ON

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### TRADE POLICY REVIEW MECHANISM

#### HONG KONG

#### MINUTES OF MEETING

Chairman: Mr. Rubens Ricupero (Brazil)

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HONG KONG

MINUTES OF THE COUNCIL MEETING

I. INTRODUCTORY REMARKS BY THE CHAIRMAN OF THE COUNCIL

1. Introducing the meeting, the Chairman noted that the discussion would be based on the report by the Government of Hong Kong circulated in document C/RM/G/7 and the report by the Secretariat circulated in documents C/RM/S/9A and C/RM/S/9B. The Hong Kong Government report followed the Outline Format for country reports agreed by the Council in July 1989 (L/6552). The report by the Secretariat followed its usual format. In line with the Decision establishing the Trade Policy Review mechanism, the Secretariat had sought clarification from Hong Kong on its trade policies and practices with respect to the factual information contained in the first six chapters of its report.

2. The Chairman recalled that the procedures for the meeting were set out in document C/RM/3. The Hong Kong delegation had received advance notice in writing of certain points one delegation wished to raise.

3. The Chairman thanked the two discussants for their assistance. For the review of Hong Kong, Ambassador Rossier would open the discussion and Mr. Rosselli would subsequently make additional remarks.

II. INTRODUCTORY REMARKS BY THE REPRESENTATIVE OF HONG KONG

4. We are pleased to present to the Council a report on Hong Kong's trade policies and practices circulated as C/RM/G/7. Hong Kong fully supports the objectives of the Trade Policy Review Mechanism which are to contribute to improved adherence by contracting parties to GATT rules, disciplines and commitments, and hence to the smoother functioning of the multilateral trading system by achieving greater transparency in, and understanding of, the trade policies and practices of contracting parties.

5. May I first record our appreciation to the GATT Secretariat for its reports in C/RM/S/7A and 7B which are valuable documentation for this Council in gaining a better understanding of Hong Kong's trade policies and practices. We are also grateful to Ambassador Rossier and Mr. Rosselli for taking on the task of discussants, notwithstanding the competing demands on their time.

6. It might be helpful in the appreciation of Hong Kong's trade policy and practices if I first underline some unique features of Hong Kong's economy which shape our basic philosophy.

7. Constrained by its small size and the absence of natural resources on the one hand, but benefiting from its central location in the Asia Pacific region on the other, the economy of Hong Kong is very highly externally-oriented and dependent on global trade. Our external trade represents nearly 2½ times our Gross Domestic Product. Some 80 per cent of manufactured products are for export, and most of the foodstuffs and consumer goods, as well as raw materials and capital goods for production, are imported. Hong Kong's economic growth and prosperity thus depend upon the openness of overseas markets.

8. Hong Kong believes in the efficient operation of market forces. As such, the Government does not normally interfere with the operation of the economy. It does not subsidise. Neither does it provide import relief or structural adjustment assistance to particular industrial sectors. There is no foreign exchange control, and the Hong Kong dollar is freely convertible against currencies.

9. The rôle of the Government in the economic development process is one of facilitation. It seeks to ensure a socio-economic environment which is conducive to economic growth, such as the provision of infrastructural facilities, a sound legal and institutional framework and an efficient administrative machinery. Business decisions are left to the private sector. Indeed, Hong Kong owes its economic progress to entrepreneurs who have taken advantage of the opportunities available under such an open and stable environment.

10. Against this background and philosophy, Hong Kong's trade policy régime is simple and transparent. It is characterized by minimum controls,

zero tariffs, and no subsidies to any particular sector. In the few cases where import and export controls are maintained, they either stem from obligations under various international agreements, or are applied for health, safety or security reasons. Regulations and administrative arrangements related to trade controls are published and relevant information is disseminated to the trading community.

11. Externally, Hong Kong seeks to promote a free, open and stable multilateral trading system. We strongly uphold the importance of the GATT, the basis of the multilateral trading system. We attach top priority to the Uruguay Round of multilateral trade negotiations.

12. It is noteworthy that Hong Kong's economy and trade have been undergoing changes in response to economic developments elsewhere. The intensification of competition in our major overseas markets, and the opening up of China's economy are just two examples. The former has led to our manufacturing sector moving up-market and producing goods of higher quality and greater design content. The latter has led to a progressive shift of labour-intensive production processes to China, to the extent permitted by our rules of origin, which are vigorously enforced by the Hong Kong Government.

13. Our economy has also experienced a shift from the manufacturing sector to the services sector. Trading and services now generate 67 per cent of our GDP. This matches with the increasing importance of Hong Kong as a regional financial and business services centre.

14. I now turn to the problems in our external markets which not only affect our trade prospects but also restrict the expansion of world trade. As an externally-oriented economy and dependent on trade with the rest of the world, we are most vulnerable to changes in other countries' trade policies and practices. The threat of protectionism remains our key concern. Our exports face a range of tariff and non-tariff barriers, notably the quantitative restrictions on textiles and clothing products maintained under MFA bilateral agreements, anti-dumping actions and arbitrary modifications to rules of origin. We have taken up these problems in the context of the Uruguay Round negotiations.

15. Without belittling the excellent efforts of the Secretariat, I would like to comment on four points raised in the Secretariat report. First, the reference (para. 276) to the limited scope of our tariff bindings. In this respect, Hong Kong has been participating actively and positively in the Uruguay Round tariff negotiating process. It has proposed an initial offer of tariff bindings at zero on a number of items. Hong Kong stands ready to improve its initial offer in the light of the actual benefits of Hong Kong as a result of offers made by other participants in the tariff negotiations. We hope our trading partners would similarly include zero bindings in their offers.

16. Secondly, the Secretariat report (para. 276) has commented that our domestic indirect taxation falls to a large extent on imported goods. I would like to point out that this is a mere reflection of the dominance of imported products in the Hong Kong market. The duties are not intended to inhibit or restrict imports for the protection of domestic industries and are in no way barriers.

17. Thirdly, the criteria for selective or single tendering in our government procurement have been described as "less clear" (para. 280). I would therefore like to elaborate some of the conditions under which single or selective tenders are used in procurement by the Hong Kong Government.

18. Conditions under which single tenders are used include:

- (a) protection of exclusive or registered rights such as patents and proprietary items or copyrights;
- (b) extreme urgency.

19. For selective tenders, the conditions under which they are used include:

- (a) from past experience, only a restricted number of suppliers can offer e.g. spare parts for vehicles;
- (b) for compatibility e.g. computer system replacement or upgrading and medical equipment.

These conditions are well known to suppliers.

20. The last point which I would like to make on the Secretariat report is the remark (para. 283) that several empirical studies show that the quota arrangements under the MFA "create some vested interest in the management of world trade in textiles and clothing". I would take this opportunity to reaffirm Hong Kong's commitment to the Punta del Este Declaration to integrate the textile and clothing sector into the GATT. Indeed, Hong Kong and other members of the International Textiles and Clothing Bureau have submitted a detailed proposal on the transition arrangements for phasing out the MFA restrictions. To bring to an end the discriminatory régime on world trade in textiles and clothing is one of the key objectives for Hong Kong in the Uruguay Round.

21. We shall also be communicating separately with the Secretariat on some factual aspects of the the Secretariat reports after the meeting.

22. Hong Kong's trade policies and practices are based on a firm belief in free trade and market forces. They have contributed to our economic growth and development over the years. It is a pleasure, through this review, to share our experiences with our trading partners.

III. STATEMENT BY THE FIRST DISCUSSANT

23. Hong Kong's very informative and well presented report on its trade policy is indeed a pleasure to read. In its own economy, Hong Kong has made the vision of the founders of the General Agreement on Tariffs and Trade come true, the vision and aim to liberalize trade and place it on a secure basis, thereby contributing to economic growth and development and to the welfare of the people.

24. Hong Kong's economic policy is based on a firm belief in the efficiency of market forces. The government normally does not intervene in the market. Hong Kong traditionally advocates and practices free trade and does not envisage changes in its liberal trade policy and practices. Hong Kong's trade régime is characterized by minimum controls, zero tariff on all imports from all sources, the absence of any non-tariff measures for the purpose of restricting trade, the absence of any subsidies or assistance to exports.

25. The total amount of Hong Kong's exports (domestic exports plus re-exports) exceeds the amount of its gross domestic product. Hong Kong's economic growth and prosperity are built on its ability to participate in world trade. As a contracting party to GATT, Hong Kong attaches top priority to a free, open and stable multilateral trading system that is based on clear, transparent, predictable, non-discriminatory and enforceable rules. The fact that Hong Kong is a party to all Tokyo Round Agreements - except those relating to meat and dairy products and the Agreement on Trade in Civil Aircraft - as well as the position Hong Kong stands for in the ongoing negotiations of the Uruguay Round show its willingness to overcome existing barriers to free trade by a multilateral rule making-approach. Hong Kong neither maintains any grey zone measures such as orderly marketing arrangements (OMAs) or voluntary export restraints (VERs).

26. Hong Kong's economic performance over the last year is a striking success story. It has proved that Hong Kong's firm belief in the market forces is justified and I do hope that the other contracting parties will follow Hong Kong's example. In this context, the job of a discussant of the GATT's trade policy review mechanism is a rather difficult one: It is not easy to ask substantial and punchy questions. Nevertheless, there are some points which I should like to raise.

27. Hong Kong applies zero tariff on all imports from all sources and does not maintain any non-tariff measures for the purpose of restricting trade. In its report, Hong Kong emphasizes the importance of a free, open and stable trading system. However, only a minority of Hong Kong's tariff lines is currently bound under the GATT. How does Hong Kong see the relation between the stability and predictability of market access and the binding of tariffs?

28. Hong Kong has no foreign exchange controls. However, the Hong Kong dollar is directly linked to the United States dollar (7.80 HK\$/US\$). How was the rate determined? Is it periodically reconsidered? Is this link still justified in the light of the shifting geographical pattern of Hong Kong's trading partners? To what extent does this fixed rate take into account shifting patterns of international competitiveness? What is the impact of this fixed rate on Hong Kong's own competitiveness in the short as well as in the long run?

29. With this fixed exchange rate Hong Kong deprives itself willingly of the possibility of an autonomous monetary policy. Facing rising inflation rates, Hong Kong is especially not in a position to control the money supply. What are in the eyes of Hong Kong's authorities the most important arguments in favour of and against this fixed exchange rate policy?

30. China's open door policy is a very important determinant of Hong Kong's impressive economic success. China emerged as the largest market for Hong Kong's re-exports and as the second largest market of Hong Kong's domestic exports. China is also Hong Kong's largest supplier. What are the modalities of Hong Kong's China trade? Specifically, is this trade financed in US\$? What exchange rate is applied?

31. Hong Kong's manufacturing sector is orienting to producing goods of a higher quality and of greater skill and design content. With the opening up of China's economy, Hong Kong businessmen set up production facilities and established outward processing arrangements in China, mostly in Guangdong province. Hong Kong's report (C/RM/G/7 p.29) mentions that they only do so to the extent permitted by the rules of origin of Hong Kong. It also mentions that these rules are vigorously enforced by the Trade Department. What does the Trade Department do to monitor and enforce the correct use of Hong Kong origin? Have there ever been - in Hong Kong or at the destinations of the good exported by Hong Kong - difficulties with Hong Kong origin?

32. Hong Kong does not compile balance of payments statistics. It argues that the reporting burden this would impose on respondents is too heavy. This argument sounds somewhat strange considering the fact that other countries do compile BOP statistics while facing the same problems, and taking into account that Hong Kong has a very successful and efficient service sector. Furthermore, balance of payments statistics are a very important basis for decisions in national as well as international trade policies. Does Hong Kong intend to close this gap in the near future?

33. Deposit rates on most types of Hong Kong dollar deposits are set by the Hong Kong Association of Banks. What is the relation between this fact and Hong Kong's belief in market forces?

34. Textiles Export Control System (C/RM/G/7 pp.54): A pre-requisite for companies to participate in the export for restrained textiles is that they must register with the Trade Department. The restraint limit for a

particular restraint period is apportioned and distributed among qualified Hong Kong companies in the form of textiles export quota. Quotas are allocated according to the basic principle of past performance. In addition, quotas can be transferred in order to create channels for new competitors. Newcomers can as well get access to free quotas. However, at first sight this system seems to discriminate against newcomers, since in order to get access to quotas they depend more or less on the goodwill of their established competitors. In a sector where competition is very intense this may constitute a very high entry barrier. How many companies now hold quotas to export textiles? How many newcomers obtain quotas every year? What is their market share? What is the market share of the four largest textile exporters in relation to the overall market volume?

35. Hong Kong's authorities have been very successful in the struggle against counterfeit products. We hope that they will continue to do so. Does Hong Kong have a specific agenda for how it will continue to monitor and enforce intellectual property rights in the future?

IV. SUPPLEMENTARY REMARKS BY THE SECOND DISCUSSANT

36. Allow me to thank the Hong Kong Government and the GATT Secretariat for the documents they have furnished to be the working basis for the Trade Policy Review in which we are engaging today.

37. I entirely share the feelings expressed by Ambassador Rossier when he referred to the difficulty that a discussant encounters in opening the debate after reading the documents that we have before us. The rôle of a discussant is to encourage discussion, and accordingly to search for little cracks into which one can poke more insistently, and the task is not easy in the case of a trade partner having the nature, opening and characteristics of transparency that Hong Kong does. Accordingly, our comments will be aimed at underlining the importance for Hong Kong, as for all the contracting parties, of developing a free and transparent trading system, because the particular case of Hong Kong is that of a GATT contracting party whose survival as such depends precisely on the opening and maintenance of foreign markets; markets which at the same time have had an impact on the very structure of this contracting party's production and trade.

38. We have noted, for example, the speed of and the readiness to change, the incredible capacity to adjust in response to changes on the world economic and trade scene which have in the case of Hong Kong resulted in a major diversification of its production structure, a pronounced increase in trade in services, rapid and substantial development of its rôle as an entrepôt, and diversification not only in its import markets but in the structure of those imports; but at the same time, Hong Kong suffers the impact of protectionism outside its borders.

39. In this context, for example, it is impossible to speak of Hong Kong without referring to textiles. Although Hong Kong has created an entire textile industry that has resulted in very important trade, we have the impression that the existence of an instrument such as the Multifibre Arrangement, which by regulating trade in textiles does not allow the entirely free play of the market, must inevitably have created certain rigidities in the production structure of Hong Kong.

40. In this regard, we wonder, for example, what is the opinion of the Hong Kong authorities as to the impact of the Multifibre Arrangement on the textile and clothing production structure of Hong Kong. We wonder, for example, in what way restrictions imposed under the Multifibre Arrangement have limited or have encouraged the development of particular industrial sectors or the establishment of new firms, whether in the textile industry or in related industries; to what extent, for example, the clothing industry has become a dependent of the domestic textile industry.

41. At the same time, in the administration of these quantitative restrictions of the MFA type, the Government of Hong Kong has had to set up

a very special structure, which is the control system for textile exports. We wonder, for example, what impact the creation of a structure of this kind has had on government activity for Hong Kong, and what the financial cost to Hong Kong has been for administering exports which could take place freely were it not for the existence of an international arrangement that imposes restraints on Hong Kong's export capacity.

42. Leaving the textile sector, we wonder what other problems Hong Kong is at present encountering in regard to its exports. Hong Kong has made a tremendous effort to diversify exports; and nevertheless certain anti-dumping measures are at present emerging, threatening certain trade flows. To what extent, then, is the international trade environment in other contracting parties affecting Hong Kong's development capacity? To what extent, for example, are changing rules of origin on the part of other trade partners creating difficulties in access for Hong Kong's products to third markets? How has Hong Kong's competitive capacity been affected in relation to other countries, without going further than the results of the exclusion of Hong Kong from certain GSP schemes? Which are the countries that are now competing with Hong Kong? And in general, what are the factors that in the view of the Hong Kong authorities are affecting or will affect in the future its competitive position on the international scene?

43. I have voiced these reflections not only to gain a better understanding of the rôle of Hong Kong in the multilateral system and the impact of its trade policies on that system, but also, through the case of Hong Kong, to learn a little more about the effect that the multilateral trading system as such often has on a contracting party, substantially affecting its real possibilities of free development.

V. QUESTIONS AND COMMENTS BY MEMBERS OF THE COUNCIL

44. The representative of Canada noted the growing economic ties between Hong Kong and Canada. In recent years, Hong Kong's trade surplus with Canada had been of the order of four to one. He commended Hong Kong's active leadership rôle in GATT and its continued support for the GATT system and the Uruguay Round. The smooth functioning of the multilateral trading system was crucial to Hong Kong's well-being as an open and relatively transparent economy.

45. Noting that Hong Kong applied no import duties, but that only 74 tariff lines were bound, he asked why Hong Kong had not bound more tariffs in previous GATT rounds, to provide security to exporting nations. Canada noted Hong Kong's willingness to increase the level of its bindings in the Uruguay Round and encouraged Hong Kong to bind its tariff to the maximum extent.

46. He asked for information on the level of trade declaration charges applied to all imports and exports, whether they were ad valorem or specific, and whether the charges were the same for exports and imports. He asked for the conditions for import licences for frozen meat and poultry, and the basis for refusing licence applications for such products. He wondered how, given that imports into Hong Kong do not require certificates of origin issued by the exporting countries, it was possible to provide reliable certification of the origin of re-exported goods which were significant in Hong Kong's trade. Information was also sought on the criteria used by the Hong Kong Government to utilize selective, as against open tendering in Government procurement, and on the date of establishment of the new Intellectual Property Department.

47. The representative of the European Communities, welcoming the reports by Hong Kong and the Secretariat, said that trade between the Community and Hong Kong had grown rapidly and was free from major problems. Hong Kong's trade balance with the Community had been generally positive over the last decade, except in 1988 and 1989 when increased EC exports had led to surpluses of some US\$ 500 million.

48. He paid tribute to the fact that Hong Kong applied zero tariffs on imports from all sources. This could serve as an example to others of how to take full advantage of the benefits of an open economy. The absence of tariff bindings on most industrial products was, however, to be noted and figured as an integral part of the Uruguay Round discussions. He took note of Hong Kong's introductory remarks concerning possible improvements in its tariff offer. He felt that in Hong Kong, zero tariffs were losing their trade-creating effects to some extent, given that structural change was leading to a shrinking manufacturing sector and a steady expansion of services.

49. Indirect taxation in the Hong Kong context fell largely on imported goods. Chinese-type and European-type alcoholic beverages were treated in

a differential manner. He suggested that the application of a uniform rate of excise duty, perhaps based on alcohol content, for domestic and imported spirits would avoid the trade distorting effects of the present scheme. He also felt that the higher rates of motor vehicle first registration tax on more expensive cars penalized the import of European cars, and could distort trade patterns, irrespective of the aims of the system.

50. Referring to Chapter 7 of Hong Kong's report concerning anti-dumping proceedings initiated against Hong Kong by major trade partners, the Community refuted any allegation that it used anti-dumping procedures as a means of selective safeguarding or that its procedures favoured findings of the existence of dumping. At the same time, he stressed the need for strict application of rules of origin for customs purposes. In the past, some doubts had arisen on the declared origin of goods exported from Hong Kong, on account of its important final processing, trans-shipment and intermediary function for goods manufactured in China and other Asian countries. The transit and warehouse business was important for Hong Kong and no trading partner would approve of origin controls being used to suppress such trade; on the other hand, irregularities in the area of rules of origin could create problems for the smooth functioning of the MFA, the GSP system and the objective conduct of anti-dumping enquiries. Hong Kong was asked to pay special attention to these problems.

51. The scale of Hong Kong's re-exports to China for outward processing was a unique feature of the Hong Kong economy. The representative of the Communities invited Hong Kong to say more about how its growing economic co-operation and interdependence with South China affected Hong Kong's trade policies.

52. The representative of Chile said that the liberalism seen in all Hong Kong's economic activities made it a jewel of free trade, with a clear and transparent framework of laws and standards, zero tariffs on all products, m.f.n. treatment for all imports, and no obligatory norms or standards for goods for domestic consumption. Hong Kong had never invoked Article XIX of GATT, and had never applied antidumping or countervailing measures or trade measures for balance-of-payments purposes. Hong Kong was fully dependent on external trade, especially with China, dependence on which had increased rapidly. Hong Kong should deepen its links with other nations by extending bindings at zero to a higher proportion of its tariffs. He also wondered to what extent Hong Kong's economic prospects were likely to be put at risk by migration.

53. The representative of the United States said that Hong Kong's status as the United States' eleventh largest trading partner was indicative of its importance as a trading entity. Few other contracting parties came as close to embodying free trade principles. Hong Kong was a conscientious member of GATT. It adhered closely to the General Agreement and had signed most of the Tokyo Round Codes. As an active and constructive participant in the Uruguay Round, Hong Kong sought to promote free and unfettered markets. It was a model and an advertisement for the virtues of free trade. Its

rapid economic growth had been driven by trade, which had grown almost twice as fast as Hong Kong's GNP since 1967 and had brought the people of Hong Kong the second highest per capita GDP in Asia. Free trade had also fuelled the burgeoning services sector, while Hong Kong's industrial sector was of high efficiency, adaptability and technological sophistication.

54. He raised a number of comments on Hong Kong's trade régime. Although zero tariffs were applied to nearly all imports, tariff levels were not extensively bound. Bindings were the best way to show full commitment to predictable and liberal market access. He welcomed Hong Kong's readiness to improve its offer in the tariff negotiations. More extensive bindings and reform of the excise duty system would guarantee Hong Kong's open markets in the GATT. With respect to the import quota on rice, he noted that, in regulating the import of rice for strategic reserve purposes, designated importers were given import quotas that they must meet, but not exceed. He wondered whether the overall level of import quotas was both floor and ceiling, and whether quotas were altered to satisfy domestic demand as world rice prices changed.

55. The representative of the United States asked what steps Hong Kong planned to take to bring its ad valorem customs user fee, which was very similar to one found GATT-inconsistent in the case of the United States, into conformity with Article VIII of GATT.

56. He noted that although the Hong Kong government intervened to promote public goods like infrastructure, to give a guiding hand to industry and to offer training facilities to promote movements in labour, it avoided giving favours to selective industries. Its efforts to promote trade, productivity and skills largely involved industries in which Hong Kong had a perceived comparative advantage.

57. Concerning the provision of legal services in Hong Kong, the representative of the United States said that the ban on foreign, non-Commonwealth law firms from practising in Hong Kong courts and from hiring local Hong Kong solicitors gave an unfair advantage to Hong Kong and Commonwealth countries' law firms and was inconsistent with the principles of free and open trade on which Hong Kong's economy was based. He hoped that a solution to this problem could be found consistent with the Uruguay Round efforts to bring about liberalization of trade in services.

58. In conclusion, the representative of the United States said that the trend on the part of Hong Kong towards greater, more constructive participation in the GATT and the Uruguay Round could not be doubted. The Hong Kong delegation's contributions were widely recognized and appreciated. Hong Kong could show other contracting parties the growth and prosperity that open markets could produce.

59. Speaking for the four Nordic countries, the representative of Sweden said that Hong Kong was a perfect illustration of the considerable gains to be made from a liberal trade policy. Export and import licences were

required only for health and security reasons, and export licences only for exports of textile products to some countries. Hong Kong did not use export subsidies or other export assistance. Hong Kong's active participation in the GATT, as a spokesman for an open, well regulated multilateral trading system, was a benefit for all. Hong Kong's trade policy had also created greater flexibility in production and trade patterns, which was one of the main reasons for Hong Kong's success. Hong Kong had successfully promoted adjustment without government management of trade.

60. It would be useful to learn more about the measures taken to achieve the high degree of flexibility in Hong Kong's economy and the factors underlying the gradual shift underway from merchandise to services trade. Measures such as the infrastructural investments plan implemented in 1989 would increase the internationalization of Hong Kong's economy and strengthen its position as a regional trade centre.

61. The low level of tariff bindings in Hong Kong's import régime gave rise to some concern, and seemed out of tune with Hong Kong's position as one of the world's major traders. The Nordic countries expected Hong Kong seriously to consider across-the-board tariff bindings within the Uruguay Round. If binding at zero rates was not considered possible in all cases, ceiling bindings, at rates close to the applied rates, should be considered in order to reassure trading partners regarding Hong Kong's future tariff policy.

62. The representative of Switzerland commended Hong Kong's success as a practitioner and advocate of free trade. However, she called attention to the low level of tariff bindings.

63. She sought information on how interest rates were set by the Hong Kong Association of Banks and, in particular, how the rates established were related to market forces. In the textile control system, the allocation of quotas to established companies on the basis of past performance appeared to discriminate against newcomers. She asked whether the Hong Kong delegation felt that the system implied any barriers to entry into the textile trade. She sought information on the number of companies holding quotas, the number of newcomers, and the share of quotas held by the four largest companies.

64. The representative of Switzerland also sought information on the system of monitoring of intellectual property rights in Hong Kong and the proposed changes to be introduced in the system.

65. The representative of Japan gave a generally positive assessment of Hong Kong's trade policies, reflecting the views expressed in the Secretariat report. Concerns could be seen regarding problems in external markets, especially in relation to rules of origin and anti-dumping measures. He hoped that the Uruguay Round would lead to a new set of improved rules in these areas.

66. The representative of Australia praised the high degree of openness and transparency of Hong Kong's trading system. Hong Kong's trade policies were exemplary, stable and predictable, and it was an active supporter of the GATT, in which it had a strong interest, and the Uruguay Round. Hong Kong had never resorted to anti-dumping or countervailing measures, or trade measures related to balance-of-payments problems. No complaints had been made against Hong Kong under the GATT or the MTN Codes, but Hong Kong had initiated complaints under GATT, the MFA and the Anti-Dumping Code. Moreover, Hong Kong had a strong concern with an effective dispute settlement system, including third party rights. He hoped this situation would continue.

67. He asked whether the first registration fee charged on motor vehicles could have the functional effect of a tariff: if so, it should be included in the market access negotiations and a binding should be considered. Similarly, consideration might be given to the binding of excise duties. He sought information on the rationale for the low level of tariff bindings.

68. He appreciated the rapid processing of import licensing within one to three working days. However, even such small delays involved costs to traders.

69. The representative of Australia asked for clarification on the policy of refunds and drawbacks on excise duties on locally manufactured goods. He asked to what extent the Hong Kong Government had undertaken any industrial promotion activities targetting particular sectors through such agencies as the Hong Kong Productivity Council; issues relating to any distortions introduced by industrial development policies had also been raised in advance questions submitted to Hong Kong. He sought fuller information on the conditions in force for trade with China. He noted that Australia had submitted advance questions regarding Hong Kong's industry development policies and hoped that answers could be given.

70. The representative of the Republic of Korea praised Hong Kong for its open, transparent trade policies which were fully consistent with GATT. Hong Kong's economy was almost completely reliant on trade, and thus heavily dependent on developments in its main trading partners and on the good functioning of the multilateral trading system. He hoped that the system would be reinforced by the successful conclusion of the Uruguay Round, especially in the areas of textiles and clothing, safeguards, anti-dumping and rules of origin.

71. The representative of Hungary said that his country was highly appreciative of, and even envied, the general openness of Hong Kong's economy and trading system. He noted the lack of import barriers and direct export subsidies. He welcomed Hong Kong's active rôle in the Uruguay Round, in which Hungary and Hong Kong were co-operating in a number of areas.

72. He called attention to one specific issue faced by Hungarian businessmen, namely the difficulty of obtaining visas for business visits to Hong Kong. This was a real problem which he hoped the Hong Kong authorities would be able to ease through a prompt decision to eliminate current practices.

73. The representative of Mexico commended the excellence of the two reports before the Council and encouraged Hong Kong to continue with its open, multilateral trade policy.

VI. RESPONSES BY THE REPRESENTATIVE OF HONG KONG

74. The representative of Hong Kong thanked the discussants for their statements and expressed his appreciation of the complimentary remarks made by delegations on Hong Kong's trade policies and practices.

75. Hong Kong's economy, like any other, obviously had its ups and downs and its own cycle. Hong Kong had passed a period of high growth in recent years and was now entering a period of consolidation. GDP growth was 2.5 per cent in 1989, and it was expected to be three per cent in 1990.

76. Hong Kong faced two major economic problems: labour shortage and a high rate of inflation. On labour shortage, the Government was trying to deal with the problem in both long term and short term perspectives. A recently announced policy on imported labour might help to alleviate the problem in the short term. In the longer run, the Government had a policy of almost doubling the output of university and higher education graduates in the next five years.

77. While the rate of inflation remained a concern, the Government estimated that it would come down from double digits in 1989 to 8 or 9 per cent in 1990. Although, in the first half of 1990, export growth had continued to slow down, the indications were that Hong Kong's trade performance would pick up, to achieve the forecast of three per cent GDP growth.

78. The conduct of business between Hong Kong and China was no different from that between Hong Kong and other contracting parties. Consistent with Hong Kong Government's policy of free and open trade, all business decisions were left to the private sector, which would no doubt take advantage of opportunities open to them in China or elsewhere. It was not surprising, given the proximity of China to Hong Kong and given the very close links between Hong Kong and mainland Chinese people, that full advantage had been taken by Hong Kong businessmen in developing trade and economic relationships with the Chinese provinces to the benefit of both sides.

79. At the same time, he emphasized that Hong Kong continued to be a separate customs territory. Economic relationships between the two places would not erode the status of Hong Kong. There would always be control of the movement of goods and of people at the border. These, of course, included origin controls.

80. Hong Kong participated actively and positively in the tariff negotiations. It stood ready to improve its initial offer. He was very pleased to note the importance delegates attached to Hong Kong's binding its tariff at zero for more items. He was somewhat puzzled by the remarks made by the Communities' representative that Hong Kong's zero tariff might be losing its trade-creating effects. He hoped, rather, that Hong Kong's

application of zero tariffs from the very beginning could be recognized and be given credit in the Uruguay Round tariff negotiations.

81. Charges on import and export declarations were not similar to the United States customs user fee, but were quite different in nature. They were imposed on both imports and exports. They were levied at 0.05 per cent of the value of the goods declared on all goods except foodstuffs. These charges were to raise general revenue.

82. Hong Kong had not singled out the EEC and the United States in referring to anti-dumping cases against Hong Kong. However, the fact remained that, in 1988 and 1989, the EEC and the United States were the only trading partners that initiated anti-dumping proceedings against Hong Kong. In Hong Kong's view, problems relating to anti-dumping were not merely bilateral issues but warranted a multilateral solution. Hong Kong had set out very clearly its views and proposals on improvements to the Anti-Dumping Code in the relevant Uruguay Round negotiating group. Hong Kong hoped that the Round would lead to more balanced disciplines on anti-dumping proceedings.

83. Hong Kong's concern over origin criteria related to the lack of internationally agreed criteria, and to arbitrary modifications by importing countries to their origin rules. The papers by Hong Kong and the Secretariat explained in some detail the system of issuing and enforcing certificates of Hong Kong origin. Hong Kong had a very elaborate system of control and attached great importance to the integrity of its control system. The control system was enforced by the Customs and Excise department, backed up by law, and provided heavy penalties, including imprisonment, for offenders. Hong Kong believed that it had a high reputation in enforcing its system in the region. The Government was always ready to co-operate with other customs territories and welcomed any information on specific allegations, which would be investigated.

84. Certificates of origin (re-export) should not be confused with a certificate of Hong Kong origin for Hong Kong made products. In the case of certificate of origin (re-export) the applicant must produce documentary evidence to substantiate origin of the re-exported goods. Generally, a certificate of origin issued by the authorities in the originating country of the goods in question was considered to be sufficient documentary proof. Documentary evidence other than certificates of origin from the originating country could include commercial invoices issued by the supplier of the goods, transport documents and export documents. Re-exports were subject to a system of consignment inspections. Any irregularities could be subjected to investigations and prosecutions.

85. The new Intellectual Property Department was established on 2 July 1990. He hoped the establishment of this new Department would underline Hong Kong's commitment to intellectual property protection, a subject in which Hong Kong participated actively in the Uruguay Round negotiations. It was hoped that the new Department would also provide a

focal point for the further development of Hong Kong's intellectual property protection régime, an area to which the Hong Kong Government attached great importance.

86. Conditions under which selective tenders were used in Hong Kong's Government procurement included urgency of requirement, when it was necessary to obtain supplies locally; special requirements of local delivery on an as and when required basis; requirements specifying local site preparation and installation and after sale maintenance back up. Another condition was where many local suppliers existed and, from past experience, overseas quotations could in no way be competitive with local ones. The Hong Kong Government Supplies Department, which was the entity named in the Government Procurement Code, maintained a full list of approved registered suppliers of materials and services. Notifications for inspection of this list were published in the Hong Kong Government Gazette in October every year. Any firms which wished to be considered for inclusion in this list, could apply in writing to the Director of Government Supplies. These procedures were transparent and all notified to the trade through circulars.

87. Applications for import permits of frozen meat and poultry were considered by the Department of Health on the basis of public health criteria. A list of the competent authorities, and the products for which recognition is given, was published in the Hong Kong Government Gazette. Competent authorities were recognized by the Hong Kong Government in many countries, including Canada.

88. The import quota of rice was determined on a quarterly basis, taking into account the estimated rate of consumption in the quarter in question, the international supply situation, rice prices, existing stocks, plus a reserve stock of about two months' consumption. It was not thought advisable to require importers to import more, because any increase in the storage cost of the reserve stock would be passed on to consumers. Since 1976 the total consumption of rice in Hong Kong had remained more or less static at about 350,000 tonnes per annum, despite the growth in population. This reflected a continuous decline in per capita consumption of rice from 120 kilogrammes in 1961 to 78 kilogrammes in 1975 and to 61 kilogrammes in 1989, as the population changed its diet from an oriental one to a more western one. Under the rice control scheme, there was no restriction on the source of imports. For example, United States rice, which had been negligible three years earlier, now filled three per cent of the Hong Kong market, while Australian rice which had been negligible some 15 years earlier, now occupied some 17 per cent of the rice market in Hong Kong.

89. Excise duties in Hong Kong were levied for the sole purpose of raising revenue. The rates of levy were determined by fiscal considerations. The fact that these duties seemed to apply primarily on imported products was merely a reflection of the dominance of imported products in the Hong Kong market. European-type alcoholic beverages and Chinese alcoholic beverages were not similar products. For example, European-type spirits such as

brandy and whisky were different from Chinese-type spirits such as rice wine. A large number of Chinese-type spirits were not exclusively or strictly for drinking purposes; they were for culinary, medical or religious purposes. "European type" liquor was not imported only from Europe, but from all over the world including the United States, Australia and China. The categorisation was not intended, and had never been used, to discriminate in favour of or against imports from specific countries. To avoid possible misunderstanding on the terminology, Hong Kong would consider amending the Ordinance to remove any geographical references to liquor or beverages.

90. The first registration tax on motor vehicles was levied at different rates according to the type of vehicle. However, the different rates of tax were applied in a totally non-discriminatory manner irrespective of the source of imports. While appreciating the point that the European Communities' representative felt that this could penalise luxury cars exported to Hong Kong, he noted that Hong Kong imported luxury cars not just from the EC but also from other sources such as Sweden and Japan.

91. In relation to industrial development, the Hong Kong Government saw its rôle as one of facilitation. Sectors were not targeted, assisted or subsidised. In playing a facilitation rôle the Hong Kong Government, through the Industry Development Board, carried out techno-economic or market studies on various industries. However, it was up to the industries themselves to take decisions which they thought best on the basis of the results of these studies. The Hong Kong Trade Development Council (TDC) was a statutory body established by the Hong Kong Government. Its objective was to promote Hong Kong's two-way trade with the rest of the world, not only exports. In this connection, the TDC provided services not only to Hong Kong traders but to those in Hong Kong's trading partners, through its 30 offices established all over the world.

92. The history of the linking of the Hong Kong dollar to the United States dollar, as well as the operations of the mechanism had been set out in some detail in paragraphs 6.22 to 6.25 of the Hong Kong Government report. In Hong Kong's view, this linked exchange rate system provided a stable monetary system for the territory. It maintained confidence in the Hong Kong dollar, and helped to ensure orderly economic and financial conditions under which businesses could flourish. There was no intention on the part of the Hong Kong Government to vary this system. Hong Kong believed it had served well, and would maintain it.

93. Hong Kong did not compile balance-of-payments statistics because of the very heavy reporting burden on the private sector and the respondents, particularly for financial institutions. There were very few data on external financial transactions, contrary to other countries or territories where a system of reporting or registration existed in respect of external financial transactions for official control or monitoring purposes. Hong Kong had become increasingly externally oriented over the past years and there was a growing demand for more statistical information on

Hong Kong's external transactions. The Hong Kong Government would review from time to time the need and the feasibility of compiling such statistics.

94. Concerning the point made by the representative of Hungary on visa problems, the Hong Kong representative said he would be pleased to deal with the Hungarian authorities directly over any problems they might have with visas. He was surprised to hear that this still remained a problem.

95. Concerning public works programmes, it was correct to say that Hong Kong would be undertaking very massive infrastructure projects. It was the Government's belief that Hong Kong needed these major infrastructural projects, consistent with Hong Kong's aim of providing infrastructure essential to the continued economic development of the territory. The projects were costly, but were consistent with the prudent management of public finances. There would probably be a very high level of private participation, both locally and overseas. The infrastructural projects were not expected to have a major impact on inflation, which was declining.

96. The MFA had a general restrictive effect on Hong Kong's textiles and clothing industries. Quotas had forced its industries to move up-market and to produce goods with greater value-added content. No detailed assessment had been made of the cost of managing the MFA restrictions; however, these were likely to be high considering the resources employed in both the private and the public sectors. The Secretariat report had indicated the number of Government staff involved in operating the system. This gave an illustration of one of the many costs in managing the restrictions.

97. The total number of textile-holder companies in Hong Kong was about 11,000. The number of companies newly registered for textiles control purposes was about 1,700 in 1989 and about 900 for the first half of 1990. Newcomers could acquire quotas either through participation in free quotas or from existing quota-holders. During 1990, for the United States market, for example, about six per cent of the total quotas had been allocated through the free quota schemes or transfer schemes. The amount of quotas held by the four largest quota holders as a percentage of total quota holdings was generally less than 10 per cent; for example, the percentage was nine per cent for the United States market, eight per cent for the United Kingdom market and seven per cent for the West German market.

98. A host of factors affected Hong Kong's competitiveness. These included the openness of its exporting markets and the existence or otherwise of tariff or non-tariff barriers. As a firm believer in free competition and market forces, Hong Kong was used to international competition and welcomed it.

99. On deposits of original maturities up to fifteen months, except those of HK\$500,000 or above with a term to maturity of less than three months,

maximum rates of deposit rates were set by a committee of the Hong Kong Association of Banks, following consultation with the Financial Secretary's representative. The purpose of the consultation was to ensure that the wider public interest was taken into account in setting the rates.

100. Refunds of excise duty might be granted by the Commissioner of Customs and Excise of Hong Kong upon application and subject to such conditions as he might prescribe in respect of duty-paid goods: (a) exported from Hong Kong with the consent of the Commissioner; (b) for the use or consumption of a person entitled to exemption, for example, staff of consulates; (c) drawn as samples for analysis by the Government Chemist. This last condition was to ensure that importers and manufacturers did not have to bear the burden of duty payable on the goods taken and used for analysis by the Government. Partial refunds of duty were granted to franchised public bus companies and the railway corporation for the use of duty-paid light diesel oil by road vehicles owned and operated by these companies for public services. Drawback was payable on duty-paid goods manufactured locally, which were for export or for ship's or aircraft's stores.

101. Concerning Hong Kong's recently-announced labour-import scheme, he said that importation of labour into Hong Kong was where there were serious shortages and where importation would be beneficial to the economy. The slow growth of Hong Kong's labour force over the long term was becoming a constraint on economic growth. Hong Kong already had a system of admitting professional and managerial personnel without a quota. In 1989, the entry of technicians, craftsmen and supervisory personnel was subject to a quota of 3,000 workers. Some recent changes to the present import of labour scheme included a new quota of 2,700 workers for the entry of technicians, craftsmen and supervisory personnel; a new scheme for the entry of experienced operatives, subject to a quota of 10,000 workers; a special scheme for the entry of construction workers for the new airport and related public works projects, subject to an initial quota of 2,000 workers.

102. The representative of Hong Kong again thanked the discussants Ambassador Rossier and Mr. Rosselli, and the delegates for their strong interest and praise for Hong Kong's trade policies and practices. He was particularly encouraged by what he saw as a unanimous endorsement of Hong Kong's trade philosophy, policies and practices. It was also gratifying to hear the recognition given by delegations to the contribution Hong Kong had made in promoting a free, open and favourable trade environment. This would no doubt, strengthen Hong Kong's resolve to continue the pursuit of such policies. The comments made in connection with the Hong Kong report also reflected a common quest by all contracting parties in seeking a greater expansion of global trade through an open and free environment, the key objective underpinning the Uruguay Round negotiations. He also congratulated the Secretariat again for its succinct and very informative documentation which, as had been clearly demonstrated, served as a valuable tool for the review.

VII. CONCLUDING REMARKS BY THE CHAIRMAN

103. The aim of the reviews undertaken in the framework of the Trade Policy Review Mechanism is to provide a collective evaluation of the full range of individual contracting parties' trade policies and practices and their impact on the functioning of the multilateral trading system. In these closing remarks, I do not wish to substitute for the appreciation made by the Council of Hong Kong's trade policies and practices but rather, on my own account, to bring out some of the salient points that have been made in this review.

104. The Council reviewed Hong Kong's trade policies and practices in the light of its economic and trade situation. The Council noted that Hong Kong's trade policies were based on the most-favoured-nation principle. Hong Kong was an active and conscientious member of the GATT and had subscribed to virtually all the Tokyo Round Codes. Its trade policies were transparent.

105. Hong Kong imposed no tariffs. No preferences were given to imports from any source. Import licensing provisions covered a small range of products, and were related to such considerations as public health, security, or the implementation of bilateral agreements under the MFA. No subsidies or other direct assistance were given to exports.

106. It was also noted that Hong Kong maintained no anti-dumping or countervailing legislation, and had never taken any action under Article XIX of the General Agreement or other international safeguard procedures. Hong Kong maintained no unilateral or bilateral "voluntary" export restraints or other "grey zone" measures. Nor did Hong Kong impose any discriminatory rules of origin for imported or transiting goods.

107. Council members sought clarification and expressed concerns on a number of issues:

- (i) Although all imports entered Hong Kong free of import duty, the level of GATT tariff bindings was low. Members encouraged Hong Kong to consider binding a substantial proportion, if not all, of its tariff as a means of providing additional security for exporters.
- (ii) Members sought clarification on the operation and incidence of the trade declaration charges levied by Hong Kong.
- (iii) Virtually any taxation measure applied by the Hong Kong authorities had some effect on international trade. Members enquired about the impact on trade of internal taxes and charges in Hong Kong, including excise duties and the motor vehicles first registration tax. Such taxes could have the effect of tariffs, and in some cases might have discriminatory effects on imports from different sources.

- (iv) Members also queried the operation and the effects on trade of the rice control scheme and import licensing provisions applying to frozen meat and poultry.
- (v) Questions were asked on the operation of Hong Kong's certificate of origin system, and in particular its reliability in the light of the rapid growth of re-exports and entrepôt trade.
- (vi) In respect of Government procurement, the criteria used for applying selective, as opposed to open, tendering procedures remained unclear.
- (vii) Attention was drawn to the economic and administrative costs to Hong Kong of export restraints in force under the MFA. Members asked how the combination of export restraints and strict rules of origin had affected the structure of the textile and clothing industries. Information was sought on possible discriminatory effects of the control system on the entry of new firms to the textile and clothing export trade.
- (viii) Members asked to what extent Hong Kong's industrial support policies encouraged structural change in certain specific directions.
- (ix) Members sought information on the establishment of the new Intellectual Property Department and on the operation of Hong Kong's controls in this field.
- (x) Questions were raised regarding the effects on Hong Kong's international competitiveness, in particular vis-à-vis other developing countries and Eastern European countries, of its "linked" exchange rate policy, especially in a period of inflationary pressures.

108. Many members referred to the growing trade and investment links between Hong Kong and China. It was noted that the high level of investment in outward processing or manufacturing plants in China by Hong Kong investors had been a major factor in the evolution of the Hong Kong economy in the 1980s. Members enquired whether there was any special system for trade with China and asked about the likely effects of this trade on Hong Kong's economic structure, in particular the effects on value added and employment in the manufacturing sector.

109. It was recognized that the external trading environment was of extraordinary importance for the Hong Kong economy. Issues in the international trading system which were of particular concern to Hong Kong included restraints on textiles and clothing under the MFA; anti-dumping actions; and rules of origin. Several Council members underlined the need

to find positive solutions to these problems through the Uruguay Round negotiations.

110. Many members noted that Hong Kong's trade policy had been the basis for its remarkable economic development over many years. However, it was noted that Hong Kong's economic growth rate had declined markedly since 1987, while pressures on resources, particularly skilled labour, had increased, contributing to accelerating inflation. Members questioned whether these pressures could be seen as short-term phenomena, or whether they might reflect more fundamental and persistent factors which could limit Hong Kong's long-term growth potential.

111. In response, the representative of Hong Kong observed that the economy had experienced ups and downs before, and that the present slower economic growth could be seen as part of the business cycle. He gave details on a major new infrastructure programme in Hong Kong, a new policy on imported labour and noted that longer-term measures were being taken to upgrade the skills of the labour force. Inflation was projected to fall to a single-digit rate in the near future.

112. Hong Kong's industrial development policy was designed to improve the general infrastructure and to facilitate, not target investment. Techno-economic studies carried out or commissioned by the Government served as an information base for industrialists' decision-making on investment. The Hong Kong Trade Development Council promoted two-way trade, not simply exports. The representative of Hong Kong noted that the share of the leading firms in the allocation of textile quotas was relatively small.

113. Hong Kong considered that the linked exchange rate system had served it well. There was no intention to modify the system. No reporting system existed which could provide a basis for balance-of-payments statistics. However, this question would be kept under review.

114. Trade with China had been boosted by the opening of the Chinese economy. The conduct of business with China was in the hands of the private sector, and was the same as with other countries. He emphasized that Hong Kong was, and would continue to be, a separate customs territory with its own border regulations and controls.

115. Turning to specific questions and comments on Hong Kong's trade policies, the representative of Hong Kong said that Hong Kong was ready to improve its initial offer on tariff bindings, in the light of progress made in matters of interest to Hong Kong in the Uruguay Round. Trade declaration charges, imposed on both imports and exports at a rate of 0.05 per cent except for foodstuffs, were for general revenue purposes. Similarly, excise duties were levied for the sole purpose of generating government revenue without an intention to discriminate among similar products from different sources.

116. Hong Kong attached great importance to the integrity of its rules of origin system. It was concerned about the lack of internationally agreed criteria for such rules and the unilateral actions taken in this area by some trading entities.

117. Hong Kong also attached significance to adequate protection of intellectual property rights. The new Intellectual Property Department, established in July 1990, was the focal point for operations in this area.

118. The European Communities and the United States were the only two major trading partners to have recently taken anti-dumping measures against Hong Kong. However, the question of anti-dumping procedures was a multilateral issue which Hong Kong was pursuing in the Uruguay Round.

119. Policy on rice was intended to maintain a necessary level of stocks in Hong Kong for domestic consumption. Importers were free to buy from any source without restriction, and this was reflected in changing market shares for different exporting countries. A description of the policy regarding frozen meat and poultry was contained in the Secretariat report.

120. The representative of Hong Kong also provided further details concerning the selection of qualified suppliers for selective tendering in Government procurement.

121. In conclusion, the Council praised Hong Kong's open trade policies, which were a major source of its prosperity. The outcome of the Uruguay Round in many traditional and new areas, including safeguards, anti-dumping, textiles, services and TRIPs, was important for Hong Kong's future trade and prosperity. Members expressed appreciation for Hong Kong's readiness to make its own contribution to the success of the negotiations.